Fitch Upgrs Debt Rtgs of PDVSA-Related Transactions: Petrozuata, Cerro Negro, Sincor, & Hamaca

17 Sep 2003 10:13 AM (EDT)

Fitch Ratings-Chicago-September 17, 2003: Fitch Ratings has upgraded the senior secured debt ratings of the four Venezuelan heavy oil strategic associations, Petrozuata, Cerro Negro, Sincor, and Hamaca, to 'B+' from 'B' and removed the Rating Watch Positive status.

The rating actions apply to the following debt securities:

Petrozuata Finance Inc. (Petrozuata) --US$300 million 7.63% series A bonds due 2009;

--US$625 million 8.22% series B bonds due 2017;

--US$75 million 8.37% series C bonds due 2022.

Cerro Negro Finance, Ltd. (Cerro Negro)

--US$200 million 7.33% bonds due 2009;

--US$350 million 7.90% bonds due 2020;

--US$50 million 8.03% bonds due 2028.

Sincrudos de Oriente Sincor, C.A. (Sincor)

--US$1.2 billion senior bank loans borrowed by the sponsors of Sincor Finance Inc.

Petrolera Hamaca, S.A. (Hamaca)

Total senior project loans of US$1.1 billion, consisting of:

--US$627.8 million senior agency loan due 2018;

--US$470 million senior bank loan due 2015, borrowed on a several (not joint) basis 30% by Corpoguanipa, S.A., a subsidiary of PDVSA, and 70% by Hamaca Holdings L.L.C.

The rating actions reflect the normalization of the operational and financial performance at each of the heavy oil strategic associations following the national strike that virtually paralyzed Venezuela's oil industry between December 2002 and February 2003. Although the standalone credit profile of each of the four heavy oil projects suggests a rating level significantly higher than that assigned, the Venezuelan sovereign's credit profile continues to constrain their credit quality. Notwithstanding this limitation, legal and structural features of the related financings allow the projects to be rated two notches above the sovereign's assigned long-term foreign currency rating.

In June 2003, Fitch upgraded the long-term foreign currency rating of the Bolivarian Republic of Venezuela to 'B-' from 'CCC+' and the long-term local currency (Venezuelan bolivar) rating to 'B-' from 'CCC'. The Rating Outlook for Venezuela is Stable. Fitch believes that the probability of a sovereign-related interruption in oil operations similar in scale to that recorded at the beginning of 2003 to be low. Given the projects' exclusive reliance on critical raw material inputs from Petroleos de Venezuela S.A. (PDVSA), any future prolonged work stoppages at state-owned PDVSA or its

affiliates would likely hinder the operational and financial viability of the heavy oil strategic associations.

The combination of strike-related operational interruptions at PDVSA and the temporary suspension of Venezuela's oil export flows rendered the heavy oil strategic associations unable to generate revenues during a two-month period. Despite the absence of internal cash flows, the projects were able to maintain adequate liquidity, covering ongoing operating and financial obligations during this period. The four strategic heavy oil associations resumed oil exports immediately after the strike ended in late February.

By the second quarter of 2003, production volumes at all four projects had either recovered to, or exceeded, pre-strike levels. It is important to note that the national labor action did not permanently impair any of the projects' facilities, infrastructure or labor force. During the two-month forced shutdown, the projects implemented cash preservation efforts and conducted maintenance on their facilities. These efforts, coupled with the benefits afforded by the prevailing strong crude oil price environment, have helped to mitigate the strike's adverse effect on the heavy oil projects' 2003 financial performance. Hence, the strategic associations' debt service capacity for the current calendar year is projected to come in line with original expectations.

Project Updates:

Petrozuata, the first of the heavy oil strategic associations, has been operating close to original expectations since achieving financial completion in March 2002. In the second quarter of 2003, Petrozuata averaged approximately 130,000 barrels per day (bpd) of extra heavy crude oil (EHCO) and approximately 112,000 bpd of syncrude (SCO). Over the medium-term, Petrozuata's annual debt service coverage ratios (DSCRs) are projected to be lower than originally projected due to an estimated US$100 million in additional capital expenditures between 2002 and 2005. These supplementary investments are required to improve Petrozuata's operations at its upgrading facilities.

Although anticipated DSCRs are lower than originally expected, the project's economics remain strong for the assigned rating category. Once Petrozuata has completed its mandatory capital expenditures, annual Maya breakeven prices are projected to be in the US$10.00 to $11.00 per barrel (bbl) range. Maya prices have averaged US$16.00/ bbl over the past ten years.

Cerro Negro, the second strategic association, has also been operating close to original expectations since achieving financial completion in November 2002. At the end of June 2003, Cerro Negro's production rates were averaging greater than 121,000 bpd of EHCO and approximately 106,000 BPD of SCO. Cerro Negro's economics continue to track close to original expectations as the highest annual Maya breakeven price is projected to be less than US$13.00/ bbl and projected annual DSCRs to average 15 times (x) with a minimum of 2x.

Sincor, the third and largest of the heavy oil strategic associations, recently posted operating parameters averaging greater than 160,000 bpd of SCO (an estimated 197,000 bpd of EHCO), exceeding the specified levels of the first-stage completion. Currently, Sincor is finalizing all other requirements of the first-stage completion, and expects to receive formal certification of completion before the end of September 2003.

Upon achieving completion under the first-stage test, Sincor sponsors will replace the completion guarantee with a limited guaranteed debt amount. The limited guarantee will remain in place until the successful completion of the subsequent completion test. Sincor is planning a US$100 million debottlenecking program that should increase average SCO production rates up to 180,000 bpd from current levels. The incremental output capacity should be completed prior to the final completion test required by 2007. Sincor's economics continue to track original expectations,

exceeding base case annual DSCRs that were projected to average 2x, with a minimum of 1.9x in the first year of commercial SCO production. Over the medium term, Sincor's highest annual West Texas Intermediate (WTI) breakeven prices are projected to be less than US$10.00/ bbl. WTI prices have averaged US$21.00 over the past ten years.

Hamaca, the fourth heavy oil strategic association, is currently under construction and continues to track close to original expectations. As of June 2003, overall construction was approximately 86% complete. The project has been producing and blending up to 80,000 bpd of EHCO. Hamaca's completion timeline is still in accordance with the financing arrangements, notwithstanding the forced shutdown for approximately two months earlier this year and an estimated month of cumulative labor stoppages since construction began in June 2000. Initial production of commercial syncrude is anticipated for mid-2004, followed by final completion testing to be scheduled by mid-2005. Similar to the other three strategic associations, Hamaca debt holders benefit from a completion guarantee with recourse to the sponsors until financial completion is achieved no later than October 2005.

Petrozuata, Cerro Negro, Sincor and Hamaca are all domiciled in Venezuela, and are involved in the development of the country's extra heavy crude oil reserves. Debt holders at each project solely rely on the ability of the project to generate sufficient cash flows from operations to meet scheduled debt service obligations. Each project's revenues are largely derived from the sale of SCO exports.

Petrozuata is owned 50.1% by a ConocoPhillips subsidiary and 49.9% by a PDVSA subsidiary. Cerro Negro is owned 41.67% by an ExxonMobil subsidiary, 41.67% by a PDVSA subsidiary and 16.67% by a Veba Oel subsidiary. Sincor is owned 47% by a TOTAL subsidiary, 38% by a PDVSA subsidiary and 15% by a Statoil subsidiary. Hamaca is owned 40% by a ConocoPhillips subsidiary, 30% by a ChevronTexaco subsidiary, and 30% a PDVSA subsidiary.

Contact: Caren Y. Chang +1-312-368-3151, Chicago; Alejandro Bertuol +1-212-908-0393, New York; or Carlos Fiorillo +58-212 286-3356, Venezuela.

Media Relations: Matt Burkhard +1-212-908-0540, New York.